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Pensions & Investments

The Newspaper of Corporate and Institutional Investing

$10 An Issue/$150 A Year

NYSE pushes multiple-class stock

Governance proposal might set standard for exchanges

By Anne Schwimmer

NEW YORK — The New York Stock Exchange again is preparing to allow the listing of multiple classes of shares with different voting rights as part of a new corporate governance proposal.

If approved, the proposal would set a standard for other exchanges nationwide and likely would be followed by a flurry of new stock issues with disparate voting rights.

Final approval of the Big Board's proposal rests with the Securities and Exchange Commission.

The SEC had banned such listings and attempted to enforce a one-share/one-vote rule in 1988, but this was nullified by a federal court in 1990. Institutional investors in the past have opposed multiple classes of stock with disparate voting rights, fearing such issues could be used to disenfranchise some shareholders.

The NYSE declined to release a copy of the proposal to *Pensions & Investments*. But according to David Domijan, executive vice president-new listings and corporate liaison for the NYSE, the draft protects the right of freely transferable shares and the importance of getting shareholder approval to create any new class of stock as well as "the principle of fundamental fairness, and that fairness is preserved by independent directors on the board."

In 1986, the NYSE attempted for the first time to gain SEC approval to allow its listed corporations to issue shares with unequal voting rights.

But in July 1988, the SEC formally adopted its one-share/one-vote standard and imposed it on the exchanges, which had been unable to agree on a joint voting rights standard. That rule was challenged by the Business Roundtable in September 1988.

Although a U.S. Court of Appeals subsequently ruled the SEC did not have the authority to impose the rule, it already had been adopted by the exchanges, which

See **NYSE** *on page 41*

ALICE GARIN

The New York Stock Exchange's proposal on disparate voting rights, if approved, could spark a flurry of new issues.

AT DEADLINE

SEC readies proposals

The SEC will provide a range of choices to employers for valuing stock options given to corporate executives in proposals to be unveiled later this month. Earlier, the SEC had favored adopting a single method for valuing options.

In addition, the SEC will propose requiring additional disclosure for boards whose compensation committees are not composed entirely of outside and non-interlocking directors.

International Paper hires

The $1.3 billion defined contribution plan of International Paper has appointed State Street Bank and Trust trustee and record keeper.

Air Force selects Wells

The $150 million U.S. Air Force Non-Appropriated Fund Employee Retirement Plan Trust hired Wells Fargo Nikko to manage a $20 million S&P 500 index fund, according to Roy H. Rainey, contract specialist. Wells is the fund's first index manager.

Realty appreciation dives

Properties in the Russell-NCREIF Property Index took a 12.1% capital value (or appreciation) loss for the year ended March 31, the sixth straight year of such losses.

Income edged up slightly, to 7.1% for the year ended March 31, from 6.73% a year earlier. The total return was −5.8% for the year ended March 31.

Air fare wars divide investors

Top airline stocks poised to soar

	'91 earnings per share	'92 estimated earnings per share	'93 estimated earnings per share
AMR Corp.	−$2.88	$2.74	$6.71
Delta Air Lines Inc.*	−8.17	−7.52	1.49
UAL Corp.	−14.41	1.18	12.62
USAir Group Inc.	−7.65	−2.75	1.02

top five holders for each airline stock and number of shares (in thousands)

AMR Corp.

Capital Research & Mgmt.	3,570
IDS Financial Corp.	2,762
RCM Capital Mgmt.	2,449
Investors Research Corp.	2,319
Manning & Napier Advisors	1,686

Delta Air Lines Inc.

Capital Research & Mgmt.	2,542
Sanford C. Bernstein & Co.	2,267
Capital Guardian Trust	2,000
Manning & Napier Advisors	1,351
State Farm Mutual Auto Ins.	1,168

UAL Corp.

Janssen Associates	1,582
Alliance Capital Mgmt.	1,361
Wellington Mgmt. Co.	1,054
Investors Research Corp.	811
Thompson Advisory Group	788

USAir Group Inc.

Sanford C. Bernstein & Co.	6,156
Brinson Partners Inc.	3,156
Gina Trust Taschner	2,000
Husic Capital Mgmt.	1,640
Equitable Life Assurance	1,186

*Fiscal year ends June 30.

Source: CDA/Spectrum, New York; and CDA/Spectrum, Rockville, Md.

By Joel Chernoff and Curtis Vosti

The latest air fare war, seen as the war to end all fare wars by some analysts, has increased the interest in airline stocks by some institutional investors.

The fare cuts might hold a long-term silver lining for investors if the cuts accelerate consolidation of the industry, eliminate overcapacity and help shore up future air fares, revenues and profits, the money managers say.

But not all money managers are prepared to wait for the wounded carriers to die and profits for the survivors to improve. Some have accelerated their sales of airline stocks.

The fare cuts of up to 50% on summer travel, sparked initially by Northwest Airlines, sent airline stocks into a tizzy.

"The trend toward consolidation is in place," said Carol Lintz, analyst with State Street Research & Management Co., Boston, which had 1.28 million shares in Dallas-based AMR Inc. and 550,000 shares in Chicago-based UAL Inc. as of March 31. AMR is the parent of American Airlines; UAL owns United Air Lines Inc.

"This is the time to get interested in these stocks. I'd be buying more if I wasn't already over 1 million shares."

Ms. Lintz might not be buying,

See **Airlines** *on page 41*

Schroder goof costs $662,974

By Steve Hemmerick

Schroder Capital Management International had to pay the California Public Employees' Retirement System $662,974 for buying a stock banned from a South Africa-free portfolio Schroder manages for the fund.

That amount is believed to be one of the largest losses for a security purchased by mistake.

London-based Schroder sold the stock — **Matsushita Electric Industrial Co. Ltd.** — immediately upon discovering the error, but at a loss, and wired the California fund restitution in April.

Richard Folkes, a director with Schroder, said the mistake was "embarrassing." California system staff members described Schroder as "very cooperative."

The fund staff formally notified system trustees of the mix-up in mid-May.

DeWitt Bowman, California Employees' chief investment officer, said it was the most costly mistake "by far" he was aware of at the $68 billion fund.

From February through June 12 of 1991, Schroder purchased 666,000 shares of Matsushita for the $500 million international equity portfolio it manages for California. Matsushita is on the banned list of stocks sent to all of the fund's money managers because the Investor Responsibility Research Center, Washington, lists Matsushita as having operations in South Africa, Mr. Bowman said.

Schroder sold the stock immediately after discovering its error, on Jan. 31, 1992.

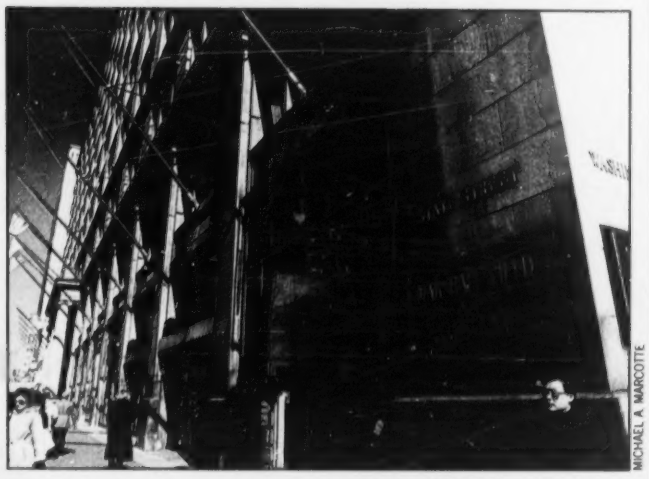
California fund officials, upon learning of the purchase and sale, first met with its custodian and consultant to calculate the loss, then with its legal department. Schroder then was asked for reimbursement.

Mr. Bowman said fund officials eventually would have uncovered the error had Schroder not found it.

Since the Matsushita incident — but not because of it — the system now has a computer program to spot investments in banned stocks and other errors, said Mr. Bowman.

Mr. Folkes declined to say how the error came about. But Mr. Bowman said computer software that screens out banned stocks frequently is used after, rather than before, a purchase is made.

NEWS DIGEST



MICHAEL A. MARCOTTE

Dayton Hudson Corp., owner of Marshall Field's & Co., didn't renew a controversial equity collar for its defined contribution plan, although the program was successful. Page 30.

Cone Mills Corp. employees challenge the company's IPO as part of an ESOP reform campaign. Page 26.

SPECIAL REPORT: ENDOWMENTS AND FOUNDATIONS

Changes being made in the portfolio asset mixes of foundations are more a result of long-term strategy than knee-jerk reactions to short-term volatility. Page 17.

A higher equity allocation is being used as a hedge against inflation by the nation's largest endowments and foundations. Page 17.

INTERNATIONAL

England's BICC Group pension fund is shifting its investment focus to tactical asset allocation and specialized management and away from a balanced approach. Page 4.

Oklahoma Gov. David Walters is expected to sign legislation to allow the state's public pension systems to invest in international securities. Page 28.

British and Dutch institutional investors are joining their U.S. counterparts in fighting European companies this proxy season. Page 43.

REAL ESTATE

Pension funds and managers fear a forced sale of Olympia & York Developments Ltd.'s Toronto properties could hurt neighboring office properties. Page 4.

Fund F participants will be voting on a plan that, if approved, would mean liquidation of the open-end commingled fund within seven years. Page 6.

Net-lease real estate, once the province of rich individual and taxable investors, is getting some serious new attention from pension funds. Page 28.

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Questionnaires in the mail

The questionnaires for *Pensions & Investments'* profiles of investment management software and data bases have been mailed. Any vendor of software or data bases aimed at pension fund executives, or the investment managers and investment consultants who serve them, who has not received a questionnaire should contact Dick Weissbrod at (212) 210-0793 immediately to receive a questionnaire.

Burlington sued on ESOP

Workers claim management got rich while plan suffered

By Hillary Durgin

Burlington Industries Equity Inc. executives and their financial advisers have been accused of overcharging the company's ESOP for its shares while they profited and received certain protections at the expense of employees.

A class-action suit filed in federal court accuses officers of the Greensboro, N.C.-based textile company and its lead investment bank — Morgan Stanley Group Inc., New York — of violating their fiduciary duties over the course of several transactions. According to the Amalgamated Clothing and Textile Workers Union, which advised the Burlington employees, these transactions netted company executives and their advisers more than $600 million in fees, dividends and bonuses.

Meanwhile, the union claims the value of the employee stock ownership plan shares plummeted more than $38 million in six months and the employees' voting control has been diluted to 3% from 49% before the company went public in March.

"Instead of watching out for the Burlington employees (vis-a-vis their interest in the ESOP), the banks and Burlington executives enriched themselves," said Michael Zucker, national field director for the textile workers union, who was commenting on the allegations.

In a statement, the company said the charges have no merit and echo arguments the union used during a recent unsuccessful organizing campaign.

In addition, some observers said the charges of fiduciary violations involving the Burlington ESOP — which reportedly is being reviewed by the Department of Labor — further underscore concerns about the viability of ESOPs as employee benefit vehicles.

"ESOPs as a vehicle for worker ownership are truly a fable," said Randy Barber, president of the Center of Economic Organizing, Washington, and a financial consultant to unions.

The lawsuit, filed in U.S. District Court, Eastern District of Arkansas, Pine Bluff Division, covers transactions spanning the period from the 1987 leveraged buy-out — led by Morgan Stanley — through a March public stock offering under which the company sold 57,000 shares of common stock for $14 each. The key charges relate to how the ESOP was operated.

The charges include breach of fiduciary duties, violation of Employee Retirement Income Security Act exclusive benefit rules, engaging in prohibited transactions at the expense of the ESOP and harming the ESOP and managing its affairs imprudently.

Among the charges, the lawsuit alleges that Burlington and Morgan Stanley officers received ESOP shares on more favorable terms than employees. In addition, management received a special guarantee against future losses, the suit said.

The Burlington ESOP was established in July 1989, two years after the leveraged buy-out that gave Morgan 100% of the voting stock for $46 million, or $10 per share, the suit said.

The ESOP purchased 35.5% of the voting stock at $37.80 per share through a $112.5 million loan. Management acquired 1.3% of the voting shares at the same share price as the ESOP; Morgan Stanley's stake fell to 50.3% of the voting shares.

The $37.80 figure is almost four times what Morgan Stanley paid for the stock and about four times the $13 per share price at which the stock has been trading recently, according to the suit.

(The current share price reflects a three-for-two reverse split prior to the public offering.)

"This management purchase of stock was actually an utter sham: At the same time that they 'paid' $37.80 per share, the defendants took numerous steps to protect and profit themselves," the suit said.

Soon after the stock purchases,

See **ESOP** *on page 39*

Sharpe set to shut firm at year end

By Anne Schwimmer

LOS ALTOS, Calif. — Nobel laureate William F. Sharpe is shutting down his consulting business and returning to Stanford University to devote more time to expanding his theories to include international investment decision-making.

"At the end of December, we're literally closing the firm," said Mr. Sharpe, who founded his firm — William F. Sharpe Associates — in 1986.

He said he expects to maintain advisory relationships with some of his 12 clients, including Nikko Securities Co. Ltd., Tokyo.

Mr. Sharpe said his move into consulting was prompted by his keen interest in how to apply finance theory to real world needs. Over time, however, the demands of his firm began to subsume his first love: research.

"It's not that I haven't been doing research, it's just that over time the consulting has crowded out the research," he said.

"What I want to do now is get really serious about the truly global views of asset management."

Mr. Sharpe said that research will include an examination of how investors make their global investment decisions, which is above and beyond his earlier work on how investors make decisions regarding domestic investments.

"One way to think of it is, 'I've got this money and I could put it in French growth stocks or in U.K. long bonds.' It involves both the country and the kind of instrument, as well as currency issues, and so the question then is how can you create a world view of this," Mr. Sharpe said.

LINDA SUE SCOTT

Bill Sharpe is returning to Stanford to conduct research on international investing.

Also in the works are plans for two books, Mr. Sharpe said.

One of his employees — Mark Friebel, director of operations — is joining Wells Fargo Nikko where he will work with the group there that uses William F. Sharpe Associates' software. In addition to Mr. Sharpe and his wife, the firm has four other employees, all of whom are "being courted as we speak," Mr. Sharpe said.

Mr. Sharpe was awarded a Nobel Prize in 1990 for his pioneering work in financial economic theory. ■

Funds get new hotel partners

By Terry Williams

BOSTON — Former baseball commissioner Peter Ueberroth and hotel executive Richard Ferris have joined the pension funds of General Electric Co. and Unisys Corp. as partners in the Guest Quarters Hotel Limited Partnership.

With their new partners, the pension funds will be changing the direction of their involvement with Guest Quarters. In GE's partnership — with developer The Beacon Cos. — the partners were involved in both developing and managing the hotels. Now they only will manage the properties.

The partnership owns no hotels. The GE pension fund, however, owns three hotels it purchased from Beacon when Beacon left the first partnership, said Alan Leventhal, managing partner at Beacon.

Messrs. Ueberroth and Ferris made an undisclosed equity investment in the partnership. Neither they nor officials of the GE and Unisys pension funds would say how much each partner has in the partnership.

Beacon and GE first teamed up in December 1989 in General Electric Hotels Partners I. "The strategy back in the late '80s was for (Beacon) to develop third-party owned hotels and for Guest Quarters to manage them," said John Myers, executive vice presi-

See **Hotels** *on page 42*

SOCIAL INVESTING

CREF adds environmental factor to stock equation

■ The College Retirement Equities Fund has added an environmental screen to its Social Choice Account that will exclude companies engaged in activities that result, or are likely to result, in significant environmental damage.

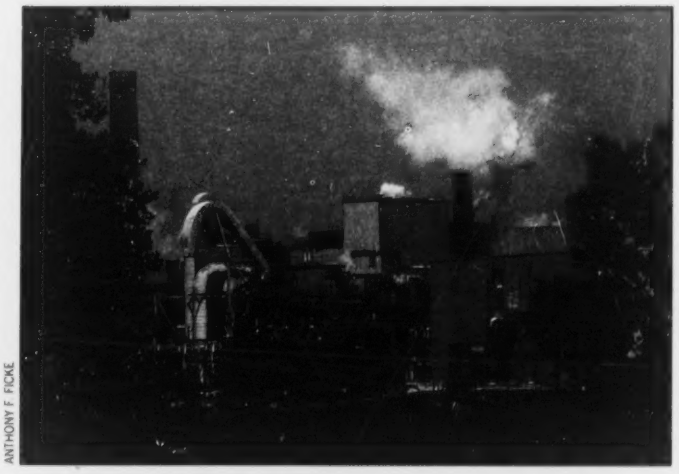
The new screen will be used by CREF to assess a company's environmental history, including its record of fines and civil suits relating to air, water, noise and land pollution; its levels of toxic emissions; and its potential liability for hazardous waste disposal sites. CREF will use the services of environmental performance consultants, Kinder, Lydenberg, Domini & Co. to aid in its evaluation of potential companies for investment.

The Social Choice Account, with more than $200 million in assets, already screens investments to exclude companies that have economic ties to South Africa; have operations in Northern Ireland and haven't adopted the MacBride Principles; produce nuclear energy; are significantly involved in weapons production; or produce and market alcoholic beverages and tobacco.

CREF, the equity investment component of the $104 billion TIAA-CREF fund, New York, also announced it will introduce an active global equities account to participants July 1. The fund will invest in a broadly diversified portfolio with targets of at least 50% of assets invested in foreign securities and 25% in U.S. securities.

The fund will be seeded with $50 million allocated from TIAA cash assets.

— Christine Philip



ANTHONY F. FICKE

A company's impact on the environment is now one of the stock screens used by the College Retirement Equities Fund.

MINORITY FIRMS

Hirsch questions minority emphasis

■ Plan sponsors' efforts to increase opportunities for minority- and women-owned investment management firms by according them special treatment is bull, according to Michael D. Hirsch, chief investment officer of M.D. Hirsch Investment Management Inc., New York.

Mr. Hirsch, in his recent newsletter, contends these firms have not been discriminated against.

"Is there any body of documented evidence that heretofore qualified minority managers were being discriminated against, that quality managers could not find employment in mainstream firms because of race, color, creed or sex?" asked Mr. Hirsch.

"That minority-owned firms were not being retained simply because they were minorities? Bull."

Mr. Hirsch questions what is a minority.

"What we are talking about here are politically correct minority groups," he said. "The ones to whom progressive public officials must pander; the ones whose names fill in the blank in 'Some of my best friends are _____.' "

According to Mr. Hirsch, these variables have manifested themselves in a number of abuses to the system. These include:

- a former Mexican-American mayor of a Texas city, with no investment background, starting an investment management firm that relies on another firm to provide asset management;
- a county retirement system in Maryland carving out "a block of assets" for majority-owned firms with minority participation; and
- two white males operating a firm that qalifies as minority because the person who supplied the capital is from Puerto Rico.

— Terry Williams

SALARIES

Manager raises still above average

■ Investment management professionals have little to complain about when it comes to their pay, a new study shows.

The study by Callan Associates Inc., San Francisco, shows investment industry executives' compensation grew 10% last year, well above the 5% growth rate of all U.S. industries and the 2.8% inflation rate.

But it's understandable if managers feel a bit let down; in the heyday of the bull market, compensation grew at a heady 22%.

Real estate managers' average compensation growth — base salary plus bonus — saw the biggest change. While in 1990 real estate managers' compensation grew 18.7%, last year real estate professionals saw only an average 6.5% increase.

Among other survey findings:

- Total compensation takes an average of 52% of the total revenue of the firms surveyed.
- Eighty-five percent of those surveyed have an annual incentive bonus program. The size of the bonuses ranged from zero to 350%.
- Only one-quarter of the respondents put a cap on the compensation individuals can earn.
- Domestic equity and fixed-income managers appear to be equally well compensated, although equity managers seem to receive higher bonuses and fixed-income managers, higher base salaries.

Callan surveyed 100 investment management firms representing $217 billion in assets.

— Elizabeth Karier

Investment industry compensation trends

(1991 mean average salary + bonus; $ thousands)

Position in firm	Domestic firm	Real estate firm	International firm
CEO/managing partner	$497	$295	$413
Sr. investment committee	212	232	265
Sr. marketing executive	150	169	156
Sr. portfolio managers	164	111	150

Source: Callan Associates Inc., San Francisco JOHN HALL

REAL ESTATE

Securities fund provides liquidity

■ Lend Lease International Realty Advisors Inc., San Francisco, is offering pension funds virtually an index fund for global real estate securities investment.

By investing in its new fund, Lend Lease Global Property Securities Fund L.P., investors have access to investment in 189 publicly traded real estate securities in 20 countries, said Simon W.R. Snellgrove, president of Lend Lease International Realty.

The fund, he said, frees the pension fund investor from a number of current problems associated with traditional real estate investment. For example, he said, publicly traded real estate securities — real estate companies and real estate investment trusts — are priced daily, instead of quarterly or once a year.

Also, investors can get out of the partnership in 90 days, not years later, he said.

Mr. Snellgrove describes the partnership as an "actively enhanced passive" fund. He said the partnership weights its investment to mirror country real estate values. The partnership also avoids low-grade real estate. The limited partnership will invest in property securities from a universe with a total market capitalization of $137 billion.

Lend Lease currently manages $60 million in real estate for a sister company MLC Life Insurance Co., Sydney, Australia.

— Steve Hemmerick

INTERNATIONAL

U.S., U.K. fund approaches differ

■ Institutional investors in the United States and the United Kingdom use very different methods for investing in European equities, according to a study by Makinson Cowell, a London investor relations company, and the Financial Times.

The study covers 96 internationally minded fund managers, with an average portfolio size of $10 billion.

A U.K. investment company judges a potential portfolio company more heavily on personal meetings with its senior management, research by brokerage firms and contacts with broker analysts. A U.S. investment firm relies less on all these, and instead the annual report and personal meetings tie for first place.

Active investment management styles are most popular on both sides of the Atlantic. Of the 14% of U.K. and U.S. equities managed passively, more passive management is done by U.S. money management firms.

Investing in a company's shares was twice as popular among U.S. fund mangers as buying a company's American depository receipts. Only 11% of U.K. fund managers say a London listing would make them more likely to buy a company's shares.

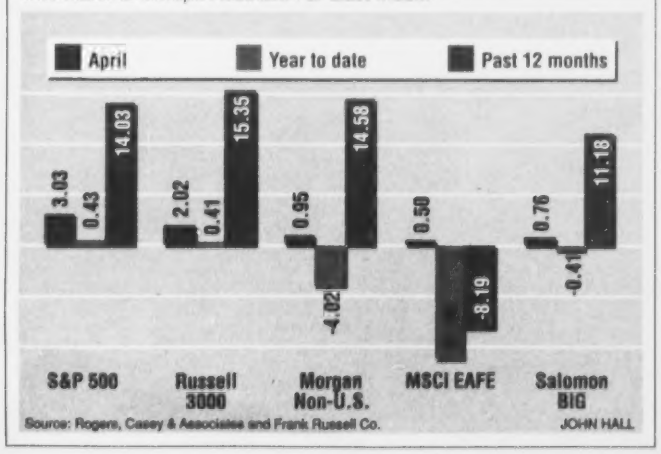
If a European company opts for a continuous on-line London listing such as SEAQ International in London, some 52% of U.S. fund managers would be more likely to buy its shares, but only 28% of U.K. managers.

While the survey shows many differences in approach, common ground was found in corporate information and potential barriers to ownership. Germany is singled out, with 72% of U.S. investors and 59% of U.K. investors claiming availability of information there is an obstacle.

— Aidan O'Sullivan

Pensions & Investments' indexes

The P&I monthly indexes track changes in the Standard & Poor's 500 Stock Index, Frank Russell Co.'s Russell 3000 Stock Index, the J.P. Morgan Non-U.S. Government Bond Index, the Salomon Brothers Broad Investment Grade Bond Index and the Morgan Stanley Capital International Europe Australia Far East Index.



Source: Rogers, Casey & Associates and Frank Russell Co. JOHN HALL

PROXIES

Changes in proposals lure support

■ Many companies are agreeing to modify proposals in their proxy statements to win the voting support of activist pension funds.

More than six companies have agreed to observe the proxy voting guidelines Institutional Shareholder Services Inc., Washington, follows in making voting recommendations after the firm warned failure to do so would result in ISS' recommending clients vote against the proposals.

Travelers Corp. was the first company in 1992 to agree to observe compensation guidelines. Other companies agreed to follow guidelines, most dealing with executive compensation, include Minnesota Mining and Manufacturing Co.; Aluminum Co. of America; J.P. Morgan & Co.; Central and South West Corp.; Morgan Stanley Group Inc.; and Chubb Corp.

"This development underscores the influence that institutional voting has on corporate policy, as well as the legitimacy of such institutional involvement," said a bulletin by ISS.

— Marlene Givant Star

New spending policy aids funds in hard time

By Christine Philip

A shift to total-return spending policies is part of the reason many endowments, especially the larger ones, are coping reasonably well in today's tougher economic climate.

While many of the larger endowments changed years ago to total-return spending and diversified portfolios, however, smaller endowments and those still using income-based spending policies are just considering it now.

"Endowments need to move to total return. Of the 350 or so endowments that I'm aware of, no more than 25% have not moved on to total return spending, but that is still a significant number of colleges," said William McCarron, principal with the consulting firm Prime Buchholz & Associates Inc., Portsmouth, N.H.

Total-return spending policies take into account appreciation/depreciation, capital gains or losses, income received and the market value of the assets when calculating payouts. An income spending policy allows for a payout based only on income received in a given year.

June Debatin, director of international asset services for Wyatt Asset Services, Atlanta, said: "The issue of total return spending impacts how a portfolio is constructed because it allows for diversification outside fixed income. If spending is kept down to 5% or below, and an asset strategy is set which allows capital growth through a greater equity allocation, then the corpus begins to grow. As it grows, the spending increases because the principal is increasing."

While many universities are experiencing general budget problems, the endowments of larger universities have not, in general, made drastic changes in response to pressure from administrations. Most continue to aim for higher investment returns, to control spending and to cut costs wherever possible. Capital campaigns are ongoing and have been successful, say endowment managers, adding significantly to endowment income, despite tougher economic times for donors.

"Cutting costs, raising charges, increasing the distribution from permanent capital funds and doing less than you want to do are all elements available to universities for dealing with operating issues and pressures," said Allan S. Bufferd, deputy treasurer and director of investments at Massachusetts Institute of Technology, Cambridge, which has about $1.4 billion in its fund. "There are clear operating pressures on M.I.T., as there are on all universities, but the pressure is not so much on investment returns, as on distribution of payouts from the endowment that will make a difference in the university's operating climate."

Like most large endowments, M.I.T.'s investment policy has not changed in response to university pressures. "We continue to steer the investment policy to enhance total return, with appropriate risk, not to increase assets available for payout to the university for operating expenses," Mr. Bufferd said.

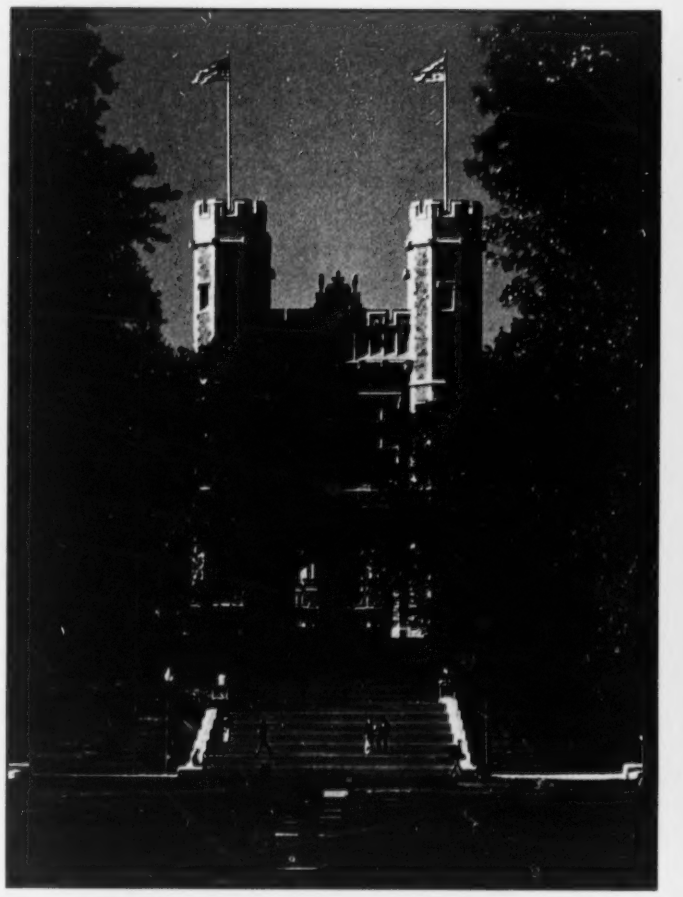
Pam Joachimi, vice president of the consulting firm Wellesley Group Inc., Waltham, Mass., said: "Our clients all have a long-term investment view and are focused on total return and in establishing a spending plan, and are not deviating from it. They are holding onto their policies through thick and thin and are not pulling back from making more diversified investments."

"For the most part, our clients do not seem to be feeling pressure from their administrations to make major changes or to spend more," she added.

John Goodrich, president and chief executive officer of Colonial Consulting Corp., New York, said, "I think endowment managers are coping well across the board, at both large and small funds. They can have a hard time holding their investment position, but for an investment posture to succeed, it has to be long term in vision. In theory, an endowment is forever and has to be managed in perpetuity."

Mr. McCarron said: "In present times, difficulty arises for those endowments which still have an income-based spending policy, spending only the interest and income gained each year. In times of pressure to generate more income, these endowments tend to overallocate to fixed-income instruments. This is a negative policy for the long term, because the fund won't keep pace with inflation and will lose real purchasing power, possibly eroding the principal."

See **Spending** *on page 19*



Washington University in St. Louis is completely restructuring its $1.6 billion endowment to increase diversification.

Stocks used as a hedge for inflation

By Sabine Schramm

As a long-term hedge against inflation, the largest foundations and endowments commit on average 15% more to equities in their asset allocations than pension fund sponsors.

The average equity allocation of the 15 largest foundations is 61.4%, and for the 15 largest endowments, 50.7%, while the top 200 defined benefit plans' average allocation to stocks was 48.6%.

A larger commitment to equities tends to point to long-term stability, said Mike Miller, vice president at Colonial Consulting, New York. Mr. Miller said endowments and foundations generally are less diversified but have a larger commitment to equities than pension funds. "It is a proven way in the long term to beat inflation," he said.

Of the 42 endowments and foundations in Colonial's data base, the median stock allocation for endowments on March 31 was 56%, and for foundations, 53%.

On a perpetual basis, foundations must pay out 5% of their market value to maintain tax-exempt status, according to Internal Revenue Service regulations.

Foundations must earn the 5% for the payouts as well as enough to offset inflation, explained William Imhoff, chief investment officer of the $4 billion Robert Wood Johnson Foundation, Princeton, N.J. "Over time, studies show that stocks beat bonds in returns," he said explaining the use of stock as an inflation hedge. The 5% payout income could be generated by bonds, he added.

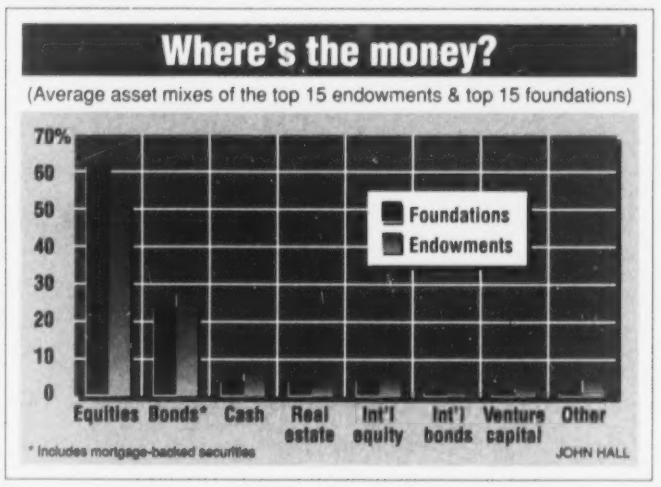
The Johnson foundation's asset mix as of Dec. 31 was 69% stocks, 21% bonds, 1% cash and 9% mortgage-backed securities.

With dividends down and interest rates low, endowments are finding capital appreciation of assets is not enough to maintain principal, and they are faced with changing how much they spend or changing their asset allocation, according to Neil T. Johnson, managing director of Hamilton & Co., New York.

Part of the larger allocation to stocks by foundations and endowments can be accounted for by founder stock. Peculiar to both foundations and endowments, founder stocks can make up most of the funds' equity commitment, particularly for foundations, explained Mr. Imhoff. At the Johnson foundation, for example, founder stock represents 64% of total assets.

Donations also represent a substantial portion of some endowments, although not as large as foundations, according to Mr. Johnson. "Contribution campaigns have gotten very creative," he said. Mr. Johnson said donations include life income of whole life insurance policies and custody of stock assets with the restrictions the stock can't be sold.

Foundations and endowments can't match their assets with future liabilities as specifically as pension funds, explained Mr. Miller. "There is a struggle between what they can do today and what they need to protect the trust for the future," he said. ■



Foundations hold to investment plans

Asset mixes stress long-term horizons

By Terry Williams

When perpetuity is the investment time horizon, it takes more than an overvalued stock market, abysmal returns on real estate and falling interest rates to cause structural changes in foundation portfolios.

Likewise, in times of increased need, foundations don't increase their amount of grant-making in the wake of increased demand.

For private foundations, the Internal Revenue Service requires grants of at least 5% of of total assets annually. The exception to that rule, however, is community foundations. These foundations, like the $700 million Cleveland Foundation, Cleveland, make grants from dividend and interest earnings, according to Philip T. Tobin, chief financial and administrative officer.

"Most of my colleagues that I speak to have a feeling that there is increased risk out there due to uncertainties," said Lawrence Landry, vice president and chief financial officer of the $3.2 billion John D. and Catherine T. MacArthur Foundation, Chicago.

"Foundations, the well-managed long-term ones, are not traders," Mr. Landry said. "They won't overreact to what's happening today.

"The long-term fundamentals haven't changed much in the last year. So not much has changed.

"We tend to be more reserved in our response because we are longer term."

Foundation treasurers interviewed by *Pensions & Investments* concede evolutions are occurring in their portfolio asset mixes, but only as part of a long-term strategy.

At the MacArthur Foundation, for instance, one-third of the assets is in real estate, of which two-thirds is undeveloped land, according to Mr. Landry.

The foundation is reducing its real estate exposure, but is taking the longer term approach that real estate investment advisers have told their pension fund investors is necessary.

"One-third is too high, but we won't give it away," said Mr. Landry. "We were created in 1979 and have been selling (real estate) since then," he said. About two-thirds of the fund's $700 million in assets was in real estate in 1979.

The $400 million Henry J. Kaiser Family Foundation, Menlo Park, Calif., is investigating alternative investment opportunities that would earn it incremental returns, but that search is being done within the context of a long-term perspective, said Bruce W. Madding, vice president.

See **Mixes** *on page 19*

Spending

Continued from page 17

Spending limits for the larger endowments interviewed are based on total return and hover around 5%, calculated on a three-year rolling average of market value. Most universities interviewed do not intend to change their spending policies.

Emory University, Atlanta, with about $1.7 billion in its endowment, is typical in basing its spending limit on total return, with a payout range between 4.5% and 5.5% of the market value of its assets. "We look at what is reasonable to spend, factoring in inflation," said M. Wayne Coon, associate vice president for endowment investments.

Harvard University "has a very diversified portfolio, definitely more so than the typical university," said Jack Meyer, president and chief investment officer of Harvard Management Co., Boston, which manages the $5.5 billion endowment for the university. Harvard's portfolio includes more traditional investments — domestic and international equities, domestic and international fixed income, real estate — as well as commodity-based investments (oil, gas, timber, agriculture and mining), venture capital and distressed securities.

All of the larger universities interviewed hold well-diversified portfolios, with allocations in equity and fixed-income vehicles as well as in a variety of other investments, including real estate, international, special situations and venture capital.

Figures from Foundation and Endowment Research and Information Systems Inc., Atlanta, for the 1990-'91 fiscal year ended June 30 showed an average investment yield for an independent university's endowment fund at $1.2 million. For church-affiliated schools, the average yield was $1.1 million, and for public institutions, $562,000.

Most universities traditionally have looked for ways to keep costs down in the management of funds. James A. Sanderson, senior investment officer at Cornell University, Ithaca, N.Y., with about $1 billion in endowment assets, said: "We have always run a very tight ship. We have the same number of investment staff as we did 20 years ago, but we certainly run a lot more money now."

Only 10% to 15% of endowments use performance fees for their managers, said Mr. McCarron of Prime, Buchholz. "There was a big push for it about three years ago, but it hasn't taken on any additional momentum."

Harvard's Mr. Meyer, however, is a big fan of performance-based fees. "About 10% of our assets are managed externally, and those managers are on a performance-related fee schedule," he said. "Even for our internal staff, compensation is closely linked to performance." Mr. Meyer added internal management costs "are also watched very carefully."

Washington University in St. Louis, with about $1.6 billion in endowment assets, is undergoing a complete restructuring of its portfolio, moving to greater diversification. "We shifted our investment policy from the short term to the long term, moving into equities, making greater allocations to alternative investments and giving considerably less discretion to our fixed-income managers, giving them much more explicit directions about duration and quality constraints," said Richard Anderson, vice chancellor for finance. "We have also moved our indexed equities away from the (Standard & Poor's 500 Stock Index) to cover the whole market."

Washington University also is "trying to squeeze every nickel out of the endowment that we can and to save every penny in cost wherever possible," said Mr. Sanderson. Cost savings by the end of the fiscal year ended June 30 are expected to total $500 million. A number of new managers will be added and current managers reviewed carefully for fit with the new policy and for fee structure.

Many smaller colleges and universities are experiencing significantly different problems from larger endowments.

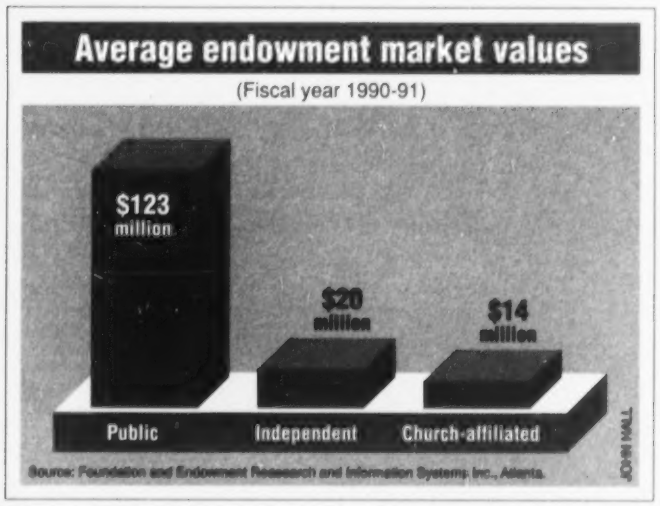
Tammy Martin, president of Foundation and Endowment Research, said: "For smaller schools, there is a great deal of emphasis on overall strategic planning leading to enhanced revenue and income increases. There is tremendous pressure from trustees to produce five-, 10-year and even longer term investment projections."

Wyatt's Ms. Debatin said of smaller endowments: "You must separate consideration of small schools from the big ones. All schools are having tough times now, but small funds have not moved as quickly to the use of total return spending, as have larger institutions, but that has been changing rapidly during the past five years. There is no question but that total return spending is the way to go."

Some smaller endowments, however, are matching the larger ones in sophistication. Concordia College, Moorhead, Minn., has an endowment fund of about $34 million. Clyde E. Allen, treasurer and vice president for business affairs, said: "The key to our endowment plan was laid out in a 10-year financial plan. We have been looking to reach a certain dollar per student of the endowment plan by the mid-1990s."

The plan uses total return spending, which averages about 6% of current value, has a diversified asset allocation — 55% equities, 40% fixed income and 5% cash — and "is very tight with costs," said Mr. Allen. "By concentrating over the years on controlling costs, we feel that we are in good shape. We have a reputation for offering a very high quality education and spend less to do it." In the last budget, the college was able to save $300,000 through cost-cutting measures.

Smaller endowments have benefited from use of The Common Fund, Fairfield, Conn., which was chartered by Congress in 1971 to manage education-related endowment funds. The fund manages about $7 billion in endowment assets for 1,000 universities and colleges. It also manages an additional $8.5 billion in operating funds and cash reserves for educational institutions. ■



Mixes

Continued from page 17

Among the areas the fund has examined — but in which it has yet to invest — are derivatives, hedge funds and global securities.

"In our case, we have sought out the incremental return by seeking out these different investment vehicles," said Mr. Madding.

Foundations' long-term approach to investment management might best be typified by the William and Flora Hewlett Foundation's handling of the stock of the Hewlett-Packard Co.

According to William F. Nichols, treasurer of the Hewlett Foundation, Menlo Park, Calif., one-third of the $800 million overall portfolio is in Hewlett-Packard stock.

The foundation received most of the shares in the 1970s, in the settlement of Flora Hewlett's estate.

When the foundation began selling off the stock six years ago, the equity portfolio was two-thirds in Hewlett-Packard stock.

"Our program basically involves selling small amounts consistently over time," said Mr. Nichols. "It's not something in which we say 'the market is right, let's sell some.' "

Although grant-making might not change as a percentage of the portfolio, some foundations will change the sectors to which they make grants.

The $345 million Commonwealth Fund, New York, primarily funds the health-care area, but in the past few years it has made grants in youth and manpower development, areas it believes is of increased importance, said John E. Craig, vice president and treasurer.

Foundation boards have joined pension funds in their efforts to keep costs down, but several executives, citing their smaller asset size, said they are not able to exact the concessions on fees that pension funds do. "Foundations in general are less pro-active here because of so little clout," said Mr. Craig. "We are not billions of billions of dollars." ■

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FOUNDATIONS

The Annenberg Foundations

	($ millions)
Total assets*	1,303

From The Foundation Directory

ST. DAVIDS, Pa. — As of June 30, 1991, The Annenberg Foundations' total assets were $1.303 billion.

Carnegie Corp. of New York

	($ millions)
Total assets	1,000
Asset mix	
U.S. stocks	44%
U.S. fixed income	26.8%
Cash equivalents	4.9%
Real estate equity	1.5%
Foreign stocks	11.1%
Foreign fixed income	8.3%
Venture capital	1.6%
LBOs	1.8%

NEW YORK — As of Dec. 31, the Carnegie Corp. of New York's total assets were $1 billion.

The external investment managers included: Brinson Partners; Capital Guardian; Cumberland Partners; Institutional Partners; Miller, Anderson, Sherrerd; J.P. Morgan Investment and Omega Partners.

The key person overseeing fund investments is Jeanmarie C. Grisi.

The Duke Endowment

	($ millions)
Total assets	1,211
Internally managed assets	1,105
Asset mix	
U.S. stocks	87.5%
U.S. fixed income	8.7%
Cash equivalents	3.1%
Real estate equity	0.5%
Foreign stocks	0.2%

CHARLOTTE, N.C. — As of Dec. 31, The Duke Endowment's total assets were $1.211 billion.

The external investment managers are Advent Realty; Grantham, Mayo, van Otterloo; JMB Institutional Realty; Pacific Financial Research; and Trevor, Stewart, Burton & Jacobsen.

The investment consultant is Cambridge Associates.

The key person overseeing fund investments is John G. Mebane.

Ford Foundation

	($ millions)
Total assets	6,481
Internally managed assets	4,681
Hedging devices used	
Stock index futures	
Asset mix	
U.S. stocks	43%
U.S. fixed income	31.6%
Cash equivalents	5.3%
Real estate equity	2.5%
Foreign stocks	9.2%
Foreign fixed income	7.2%
Venture capital	1.2%

NEW YORK — As of Dec. 31, the Ford Foundation's total assets were $6.481 billion.

The external investment managers are Alliance Capital; Baring; Cursitor-Eaton; INVESCO; Scudder, Stevens and Clark; and Templeton.

The key person overseeing fund investments is John W. English.

J. Paul Getty Trust

	($ millions)
Total assets*	3,982

From Nelson's Plan Sponsor Database

SANTA MONICA, Calif. — As of September 1991, J. Paul Getty Trust's total assets were $3.982 billion.

The external investment managers are John W. Bristol; Discount Corp. of New York; INVESCO; Jennison; Mercator; Miller, Anderson & Sherrerd; PIMCO; RCM Capital; and Wellington Management.

The key person overseeing fund investments is Joseph Kearns.

Robert Wood Johnson Foundation

	($ millions)
Total assets	4,000
Internally managed assets	3,965
Asset mix	
U.S. stocks	69%
U.S. fixed income	21%
Cash equivalents	1%
Mortgage-backed securities	9%

PRINCETON, N.J. — As of Dec. 31, the Robert Wood Johnson Foundation's total assets were $4 billion.

The external investment manager is Miller, Anderson & Sherrerd.

The key person overseeing fund in-

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Steven R. Berlin
V.P., Chief Financial Officer
CITGO Petroleum Corp.

"Predicting interest rate fluctuation is a guessing game," says Berlin. "And you don't play games with employee pension money." It's a game that CITGO, one of the country's top wholesale oil marketers and refiners, feels has more risks than rewards. "Steady, long-term returns are much more important to us," Berlin states. "We don't like to speculate."

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Chicago Board of Trade

vestments is William C. Imhof.

W.K. Kellogg Foundation Trust

	($ millions)
Total assets*	3,509
Asset mix:	
U.S. stocks	82.8%
U.S. fixed income	10.8%
Cash equivalents	5.4%
Other	1%

**From Nelson's Plan Sponsor Database*

BATTLE CREEK, Mich. — As of September 1991, W.K. Kellogg Foundation Trust's total assets were $3.509 billion.

The external investment managers are Beutel Goodman; First Manhattan Capital; Jundt Associates; Lieber & Co.; Morgan Stanley Asset; Neuberger & Berman; Northern Capital; Roanoke Asset; and Strong/Corneliuson Capital.

The investment consultant is Hewitt Associates.

The key person overseeing fund investments is William W. Fritz.

The Kresge Foundation

	($ millions)
Total assets*	1,282
Internally managed assets	64
Asset mix:	
U.S. stocks	54.2%
U.S. fixed income	34.3%
Cash equivalents	8.4%
Foreign stocks	3.1%

**From Nelson's Plan Sponsor Database*

TROY, Mich. — As of September 1991, The Kresge Foundation's total assets were $1.282 billion.

The external investment managers are Barrow Hanley Mewhinney & Strauss; William Blair; Cooke & Bieler, Harris Investment; Lincoln Capital, NBD and Philippe Investment.

The investment consultant is Hamilton & Co.

The key person overseeing fund investments is Thomas W. Herbert.

Lilly Endowment Inc.

	($ millions)
Total assets	3,950
Internally managed assets	3,950
Asset mix:	
U.S. stocks	99%
Cash equivalents	1%

INDIANAPOLIS — As of Dec. 31, the Lilly Endowment Inc.'s total assets were $3.95 billion.

The investment consultant is Baxter Capital Management.

John D. & Catherine T. MacArthur Foundation

	($ millions)
Total assets*	3,135
Internally managed assets	1,411
Asset mix:	
U.S. stocks	29%
U.S. fixed income	24%
Cash equivalents	1%
Real estate equity	38%
Mortgages	7%
Oil & gas	1%

**From Nelson's Plan Sponsor Database*

CHICAGO — As of September 1991, the John D. & Catherine T. MacArthur Foundation's total assets were $3.135 billion.

The external investment managers are Mellon Bond; Northern Trust; Walter Scott International; and Wells Fargo Nikko.

The investment consultants are Cambridge Associates and Ennis, Knupp & Associates.

The key person overseeing fund investments is Lawrence Landry.

The McKnight Foundation

	($ millions)
Total assets	1,089
Indexed domestic equity	219
Asset mix:	
U.S. stocks	52%
U.S. fixed income	35%
Cash equivalents	0.2%
Real estate equity	0.3%
Mortgage-backed securities	5.7%
Foreign stocks	6.8%

MINNEAPOLIS — As of Dec. 31, The McKnight Foundation's total assets were $1.089 billion.

The external investment managers are Alliance Capital; Coldwell Banker; IDS; Lehman Ark; Mellon Capital; Peregrine; UBS; and Wells Fargo Nikko.

The investment consultant is Evaluation Associates.

The key person overseeing fund investments is Michael O'Keefe.

Andrew W. Mellon Foundation

	($ millions)
Total assets	2,050

NEW YORK — As of Dec. 31, the Andrew W. Mellon Foundation's total assets were $2.05 billion.

The investment consultant is Cambridge Associates.

The key person overseeing fund investments is T. Dennis Sullivan.

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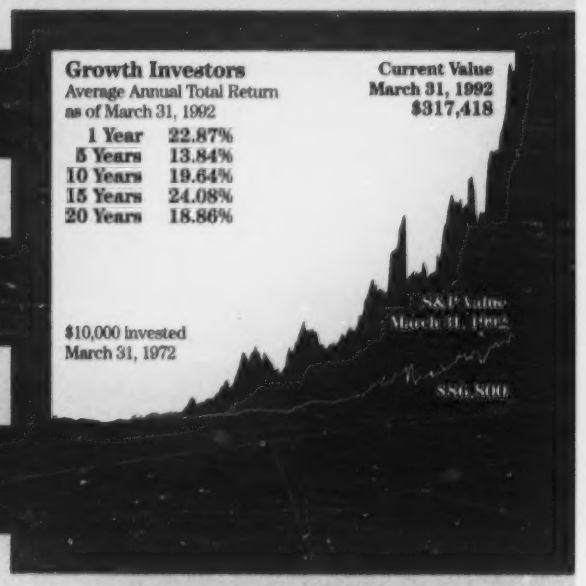

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The Pew Charitable Trusts

	($ millions)
Total assets	3,077
Internally managed assets	3,015
Asset mix:	
U.S. stocks	49%
U.S. fixed income	20%
Cash equivalents	2%
Real estate equity	1%
Mortgage-backed securities	18%
Foreign stocks	7%
Venture capital	1%
Convertibles	2%

PHILADELPHIA — As of Dec. 31, The Pew Charitable Trusts' total assets were $3.077 billion.

The external investment managers are Birtcher Realty Advisors; John Hancock Venture Capital; JMB Institutional Realty; The O'Connor Group; and Prudential Asset Management.

The investment consultants are DeMarche Associates and Frank Russell.

The key person overseeing fund investments is John W. Church.

Rockefeller Foundation

	($ millions)
Total assets	2,161
Indexed domestic equity	600
Indexed foreign equity	160
Indexed domestic bonds	100
Hedging devices used:	
Stock options	
Bond options	
Stock index futures	
Fixed-income futures	
Asset mix:	
U.S. stocks	48%
U.S. fixed income	10%
Cash equivalents	11%
Real estate equity	5%
Mortgage-backed securities	6%
Foreign stocks	15%
Venture capital	4%
LBOs	1%

NEW YORK — As of Dec. 31, the Rockefeller Foundation's total assets were $2.161 billion.

The external investment managers are Advanced Investment Management; Amerindo; AMLI Realty; Bankers Trust; BEA Associates; CIGNA; Concord Capital; Copley Institutional; Emerging Markets; Geewax, Terker; Independence Investment; LaSalle Advisors; MTH Asset; J.W. O'Connor; Palomar Partners; Rosenberg Capital; Rosenberg Institutional Equity; L.G. Schafran & Partners; Smith, Breeden; State Street Bank; TA Associates; Twin Capital; Wells Fargo Nikko; and Windham Capital.

The key person overseeing fund investments is David A. White.

Robert W. Woodruff Foundation

	($ millions)
Total assets	1,495
Internally managed assets	1,495
Asset mix:	
U.S. stocks	80%
U.S. fixed income	18%
Cash equivalents	2%

ATLANTA — As of Dec. 31, the Robert W. Woodruff Foundation's total assets were $1.495 billion.

The investment consultant is Trusco Capital.

The key person overseeing fund investments is Russ Hardin.

ENDOWMENTS

University of Chicago

	($ millions)
Total assets*	1,093
Asset mix:	
U.S. stocks	59%
Fixed income	19.5%
Cash equivalents	6.9%
Real estate equity	5.8%
Other	8.8%

**From Nelson's Plan Sponsor Database*

CHICAGO — As of September 1991, the University of Chicago endowment's total assets were $1.093 billion.

The external investment managers are Batterson, Johnson & Wang; Copley Real Estate; Oechsle International; T. Rowe Price; Schroder Capital; Sequoia Capital; Sprout Group; and Weiss Peck & Greer.

The key person overseeing fund investments is Gary B. Helms.

Columbia University Endowment Fund

	($ millions)
Total assets	1,500

NEW YORK — As of Dec. 31, the Columbia University Endowment Fund's total assets were $1.5 billion.

According to Nelson's Plan Sponsor Database, the endowment's consultant is Cambridge Associates and the person overseeing fund investments is Bruce Dressner.

Cornell University

	($ millions)
Total assets*	872

**From Nelson's Plan Sponsor Database*

ITHACA, N.Y. — As of September 1991, the Cornell University Endowment's long-term investment pool had total assets of $872 million.

The investment consultant is Cambridge Associates.

The key person overseeing fund investments is James S. Clarke.

Emory University Endowment

	($ millions)
Total assets*	1,002
Asset mix:	
Stocks	60%
Fixed income	32%
Cash equivalents	5%
Real estate equity	2%
Venture capital	1%

**From Nelson's Plan Sponsor Database*

ATLANTA — As of September 1991, Emory University Endowment's total assets were $1.002 billion.

The external investment managers are Burr Egan Deleage; Common Fund; Endowment Advisors; Grantham Mayo Van Otterloo; Intersouth Partners; JMB; Lazard Freres; Nations-Bank; Oechsle; W.H. Reaves; Trusco Capital; Wachovia Investment; Wellington Management; World Invest.

The investment consultant is Cambridge Associates.

The key person overseeing fund investments is M. Wayne Coon.

Harvard University Endowment Fund

	($ millions)
Total assets*	5,064
Asset mix:	
U.S. stocks	39%
U.S. fixed income	15%
Real estate equity	5.5%
Foreign stocks	17%
Foreign fixed income	5%
Venture capital	15.7%
Other	2.8%

**From Nelson's Plan Sponsor Database*

BOSTON — As of September 1991, the Harvard University Endowment Fund's total assets were $5.064 billion.

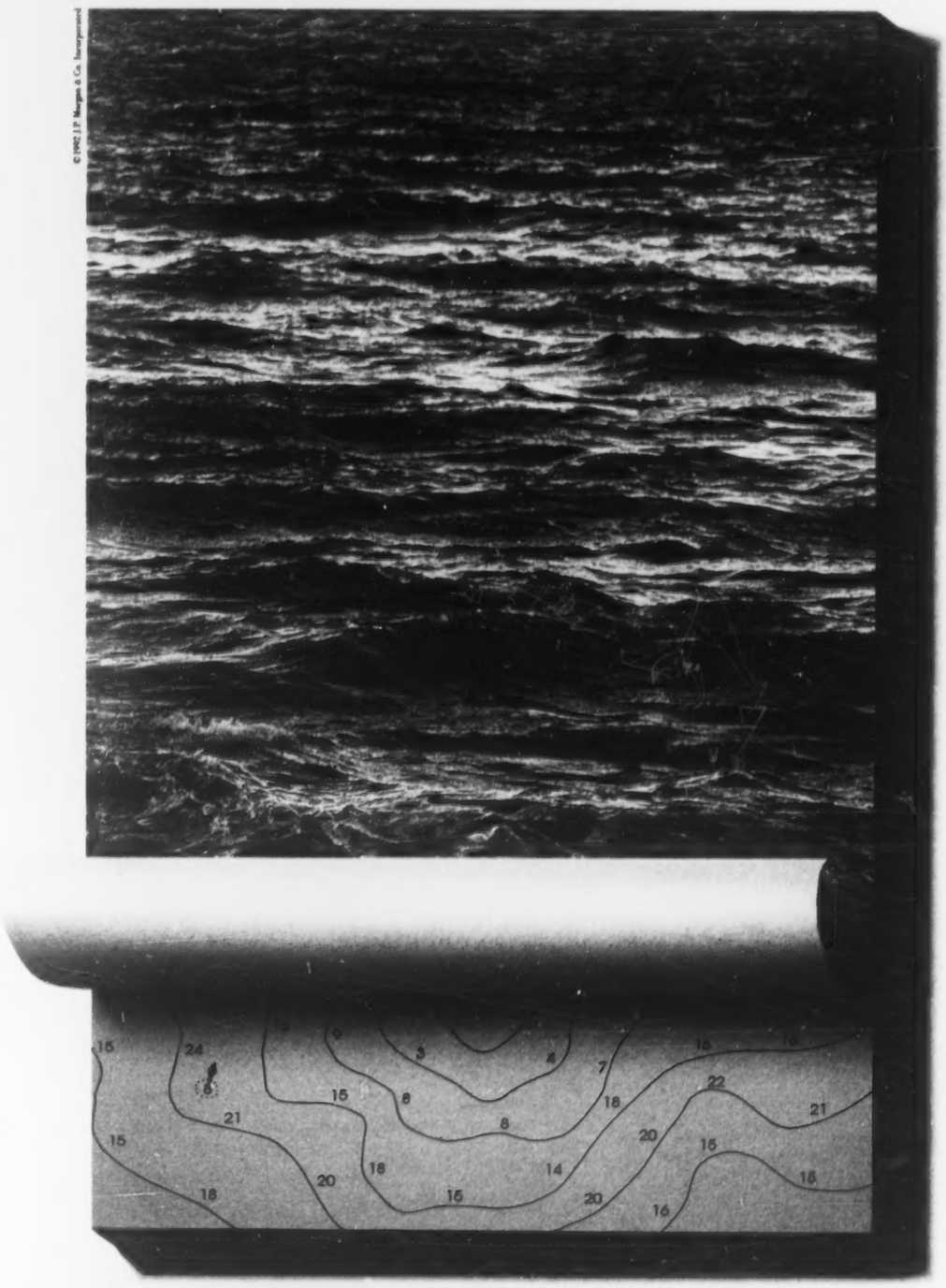
The external investment managers are Acadian Asset; Emerging Markets; Grantham Mayo Van Otterloo; Harvard Management; HLM Partners; Oechsle International; Whippoorwill; and World Invest.

The investment consultant is Cambridge Associates.

The key person overseeing fund investments is Jack Meyer.

Massachusetts Institute of Technology

	($ millions)
Total assets	1,443
Internally managed assets	100
Hedging devices used:	
Stock options	
Stock index futures	
Asset mix:	
U.S. stocks	44.5%
U.S. fixed income	27.9%
Cash equivalents	2%
Real estate equity	6.7%
Foreign stocks	9.3%
Foreign fixed income	2.7%
Venture capital	2.7%
LBOs	3%



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Other	1.2%

CAMBRIDGE, Mass. — As of June 30, 1991, the Massachusetts Institute of Technology's endowment had total assets of $1.443 billion.

The key person overseeing fund investments is Allan S. Bufferd.

Northwestern University

	($ millions)
Total assets	1,500
Internally managed assets	1,500
Asset mix:	
U.S. stocks	66.7%
U.S. fixed income	33.3%

EVANSTON, Ill. — As of Dec. 31, the Northwestern University endowment's total assets were $1.5 billion.

The key person overseeing fund investments is John B. Borsch Jr.

University of Notre Dame Endowment Fund

	($ millions)
Total assets	703
Indexed domestic bonds	28
Asset mix:	
U.S. stocks	51.2%
U.S. fixed income	19.3%
Cash equivalents	2.5%
Real estate equity	2.4%
Foreign stocks	9.2%
Foreign fixed income	5.3%
Oil & gas	2.9%
Venture capital	1.2%
Other	6%

NOTRE DAME, Ind. — As of Dec. 31, the University of Notre Dame Endowment Fund's total assets were $703.1 million.

The external investment managers are Alliance Capital; ANB Investment; Barrow, Hanley, Mewhinney & Strauss; Capital Guardian; Capital International; Common Fund; Fischer, Francis, Trees & Watts; Hellman & Friedman; Luther King; Morgen, Waterfall, Vintialis; Nicholas-Applegate; Putnam Advisors; RCM; and TCW.

The investment consultant is Cambridge Associates.

The key person overseeing fund investments is Scott C. Malpass.

University of Pennsylvania

	($ millions)
Total assets*	805
Asset mix:	
U.S. stocks	60.2%
U.S. fixed income	30.2%
Cash equivalents	8.1%
Venture capital	0.5%
International	1%

**From Nelson's Plan Sponsor Database*

PHILADELPHIA — As of September 1991, the University of Pennsylvania's endowment fund had total assets of $805 million.

The external investment managers are Brentwood Capital and JMB.

The investment consultant is Cambridge Associates.

The key person overseeing fund investments is Lucy Momjian.

Princeton University

	($ millions)
Total assets	2,974
Hedging devices used:	
Stock options	
Asset mix:	
U.S. stocks	46%
U.S. fixed income	15%
Cash equivalents	9%
Real estate equity	1%
Mortgages	5%
Foreign stocks	11%
Foreign fixed income	7%
Oil & gas	2%
Venture capital	1%
Private equity	2%
Other	1%

PRINCETON, N.J. — As of Dec. 31, Princeton University's endowment had total assets of $2.974 billion.

The external investment managers are Brinson Partners; John W. Bristol; Common Fund; Equity-Linked; Essex Investment; Fiduciary Trust Co. International; First Manhattan Capital; First Save; Grantham Mayo Van Otterloo; Jaguar Fund; Leominster; Morgan Grenfell; A.A. Nazzaro; PIMCO; Primecap; Rockefeller; and Second Save.

The investment consultant is Cambridge Associates.

The key person overseeing fund investments is Randall A. Hack.

Stanford University

	($ millions)
Total assets*	2,744
Asset mix:	
Stock	41.5%
Fixed income	29.7%
Cash equivalents	12.1
Real estate equity	6.3%
Limited partnerships	5.4%
Other	5%

**From Nelson's Plan Sponsor Database*

PALO ALTO, Calif. — As of September 1991, Stanford University's endowment had total assets of $2.744 billion.

The external investment managers are Acadian Asset; Arnhold & S. Bleichroeder; Capital Guardian; Cohen & Steers; The Common Fund; Delphi Management; First Quadrant; Grantham Mayo Van Otterloo; David J. Greene; Hill Samuel/Investment Advisers; Nicholas-Applegate; Oechsle International; T. Rowe Price; Rosenberg Institutional; and Trinity Investment.

The investment consultant is Cambridge Associates.

The key person overseeing fund investments is William F. Massey.

The Texas A&M University System

	($ millions)
Total assets	1,505
Internally managed assets	20
Asset mix:	
U.S. stocks	40%
U.S. fixed income	42.5%
Cash equivalents	6.5%
Mortgage-backed securities	11%

COLLEGE STATION, Texas — As of Dec. 31, The Texas A&M University System endowment's total assets were $1.505 billion.

The external investment managers are Austin & Calvert; Cisneros Asset Management; Eagle Management; INVESCO MIM; and Wise & Norman.

The investment consultant is Merrill Lynch Consulting.

The key person overseeing fund investments is Gregory R. Anderson.

The University of Texas System — Permanent University Fund

	($ millions)
Total assets*	3,541
Asset mix:	
Company stock	36.5%
Fixed income	45.7%
Cash equivalents	17.8%

**From Nelson's Plan Sponsor Database*

AUSTIN, Texas — As of September 1991, The University of Texas System — Permanent University Fund's total assets were $3.541 billion.

The external investment managers are Breau Capital; Franklin Portfolio; GAMCO; GeoCapital; Kahn Brothers; D.S. Kennedy; W.H. Reaves; Fayez Sarofim; Donald Smith; Sound Shore Management; Trinity Investment; Tweedy Browne; and Value Quest.

The investment consultant is Collins Associates.

The key person overseeing fund investments is Henry M. Davis.

Washington University in St. Louis

	($ millions)
Total assets	1,633
Internally managed assets	383
Indexed domestic equity	387
Hedging devices used:	
Stock options	
Stock index futures	
Asset mix:	
U.S. stocks	68%
U.S. fixed income	11%
Cash equivalents	9%
Real estate equity	2%
Mortgages	1%
Foreign stocks	3%
Oil & gas	1%
Venture capital	1%
LBOs	1%

Continued on page 24

Exploring the uses of derivatives should be satisfying, not mystifying.

Derivatives don't make risk disappear, but they do make it possible to exchange a risk you'd rather not take for one you're more willing to accept. Options, swaps, and other derivatives are simple in essence, but since they're so versatile, evaluating their various uses can be complex. That's especially true with newer derivatives linked to commodity and equity indices. But it's not our style to magnify complexity. Our success has always been based on helping clients think through every situation fully and clearly. Then we draw on the technical resources of our global network to design the specific tactic that fits your particular strategy. By taking the mystery out of derivatives, we make it easier to take advantage of these important financial tools. It's a key reason we've become a leader in the full range of risk management products.

JPMorgan

GE Investments

Worldwide Diversified Money Management Services

Galleon exec builds firm on niche plays

By Terry Williams

Louis Acevedo likes to play the niches, whether it is buying stocks or cultivating business.

The client niche he has carved himself is in managing assets affiliated with religious organizations.

His most recent addition was a $2 million account with a major religious organization in Los Angeles.

Other clients include a pension fund affiliated with a Catholic religious order in Los Angeles and two Jewish foundations, according to Mr. Acevedo.

Mr. Acevedo's firm — Galleon Capital Management, San Diego — also was selected recently as a manager for San Francisco-based Progress Investment Trust, a manager-of-managers vehicle that employs minority- and women-owned investment advisers.

Mr. Acevedo was able to make inroads into the religious funds and charitable foundation business during his days as a vice president and senior portfolio manager with Wells Fargo Bank's asset management division in Los Angeles, where he worked from 1987 to 1990.

Mr. Acevedo also considers his investment style — called growth at a reasonable cost — as a niche play.

Mr. Acevedo likes to buy large growth companies that are dominant in their industry and have a huge chunk of the market share.

But he likes to buy these companies during price weaknesses.

"I pick them up when the bad news is discounted in the price," Mr. Acevedo said.

"It's like a cross between a growth manager and a value manager," he added.

Mr. Acevedo said the key to his buy decision is cash flow.

"Whereas everyone else is looking for price-to-earnings multiples, I am looking to cash flow, which is a better indicator of the earnings potential of a company."

One such investment was **Hewlett-Packard Co.** Last year the company's stock was selling at $45 per share when Mr. Acevedo bought it.

This year its up around $80 per share. ■

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ENDOWMENTS

Continued from page 23

Other	3%

ST. LOUIS — As of Dec. 31, Washington University in St. Louis endowment's total assets were $1.633 billion.

The external investment managers are Acorn; Boatmen's Trust; Commerce Bank; The Common Fund; DFA; Ganucheau, Stupfel & Brumley; General American; Institutional Partners; Lazard Freres; Mercantile; J.P. Morgan; Newbold's; NISA; Rowe Price-Fleming; Restart Partners; and Twentieth Century.

The investment consultant is Wellesley Group.

The key person overseeing fund investments is Richard E. Anderson.

Yale University

	($ millions)
Total assets	2,820
Internally managed assets	852
Indexed domestic equity	145
Indexed foreign equity	286
Asset mix:	
U.S. stocks	45.7%
U.S. fixed income	21.4%
Cash equivalents	0.7%
Real estate equity	7.7%
Mortgages	0.1%
Foreign stocks	14.8%
Oil & gas	1%
Venture capital	3.9%
LBOs	3.9%
Life income	0.8%

NEW HAVEN, Conn. — As of Dec. 31, Yale University endowment's total assets were $2.82 billion.

The investment consultant is Cambridge Associates.

The key person overseeing fund investments is David F. Swensen.

Airlines

Continued from page 1

but Wellington Asset Management Co., The Putnam Cos. Inc., both of Boston, and Dalton, Greiner, Hartman, Maher & Co., New York, are. But executives of the three firms were mum on how much stock they bought in which airlines following the fare war prompted by the May 26 announcement by Wings Holdings Inc.'s Northwest Airlines of a 2-for-1 summer special.

Christopher Brown, a security analyst with GE Investments, Stamford, Conn., while not admitting to buying, said the price cuts, and the subsequent drop in stock value, caught his attention.

"As the stocks come down in value, we are getting more attracted to them," Mr. Brown said. GE had modest holdings in AMR, UAL, Delta, of Atlanta, and USAir, of Arlington, Va.

Sellers, meanwhile, are fearful the industry can't maintain revenue streams. Bankers Trust Co., New York, has been selling off 3.7 million shares of airline industry stocks during recent weeks.

"There's guaranteed little or no profitability in the industry in the foreseeable future," said Jim Miller, Bankers Trust vice president and equity manager.

The effect of the fare cutting plus the specter of rising fuel prices could spell a $2 billion industry loss this year, according to Lee Howard, president of Airline Economics Inc., Washington. That would follow total net losses of $6 billion during 1990 and 1991, he said.

While analysts still are adjusting their earnings forecasts downward, most think profits will appear in 1993. UAL, for example, lost $14.41 per share in 1991. Industry analysts project on average it will earn $1.18 per share this year and a whopping $12.62 per share in 1993, according to I/B/E/S Inc., New York.

But the expected losses this year are cause for pause among a number of investors. "Our position is based on recovery earnings and peak earnings expectations," said Timothy Pettee, vice president and transportation analyst at Alliance Capital Management L.P., New York. "The 1993 numbers (earnings forecasts) have to come down. We have to see through the second and third quarter earnings before I get confident about the numbers."

Alliance had been the largest holder of UAL before the end of the year — with a peak holding of 3 million shares — but sold all but 200,000 shares by the end of May. Alliance also has been selling other airline stocks since the first of the year; Mr. Pettee said Alliance sold 85% to 90% of its airline industry holdings before the current fare cuts were announced.

Investors say the biggest losers from industry consolidation could include TWA, Mount Kisco, N.Y.; Continental Air Lines, Houston; and America West Airlines, Phoenix, Ariz., all operating under Chapter 11 of the federal bankruptcy code. The price wars reportedly have caused Continental to delay its re-emergence from bankruptcy.

The latest round of fare cuts stems from April 9, when American Airlines, a unit of AMR, announced its simplified fare structure the industry generally adopted. But the summer special announced May 26 by Northwest Airlines was topped the next day by American's 50% fare special, which was quickly matched by other airlines.

American's retaliatory price cut sent a clear signal to TWA and Northwest that further discounting will not be tolerated, said Vinod Sehgal, senior analyst with Putnam, which held 419,000 shares in AMR and smaller holdings in UAL, Delta and USAir as of March 31.

He said AMR, with $800 million in cash, has far deeper pockets, and the weaker carriers do not have access to the capital markets.

"What we are seeing is the meaningful resistance of those who are wrestling for control of the pricing structure," said Remy Fisher, vice president and transportation equity analyst for Kemper Financial Services, Chicago, which had modest holdings in AMR and UAL as of March 31. She said the weaker players historically have controlled the pricing game, even though the first-tier airlines never would admit it.

John Neff, senior vice president and managing partner of Wellington Management — which held more than 1 million shares in UAL, nearly 500,000 AMR shares in AMR and almost 600,000 Delta shares as of March 31 — said the recent fare cutting by AMR "drives the stakes a little more deeply into the hearts of TWA, American West and Continental," which together control nearly 20% of the domestic market.

"The expectations are that (either TWA or Continental) will run out of cash by the end of the year," said Alliance's Mr. Pettee. "But I think the creditors will step in and force a liquidation like they did with Eastern," he said. "The biggest surprise would be if one of them shut down earlier than expected."

There are some who say turmoil is the norm in the topsy-turvy world of airline investing.

"This is business as usual — for the airlines," said GE Investment's Mr. Brown. "The story of consolidation has been around for a long time and will still be around through the summer."

Rose Ann Tortora, an analyst with County NatWest USA, New York, laughingly said: "You have to be mentally insane or certifiable to invest in the airlines." Or maybe just optimistic. "We've been reading this book called Deregulation," she said, "and the last chapter is called Consolidation."

Airline Economics' Mr. Howard said future airline operating profits could for the first time near the average profit margins of U.S. industry as a whole.

"There is a fundamental change going on," said Alliance's Mr. Pettee.

That evolution has caused some to pause, at least awhile. Bankers Trust's Mr. Miller noted his firm sold its airline holdings on news of the fare wars, not on American's earlier fare restructuring and simplification.

But some investors are optimistic despite their current caution. Along with the expected consolidation is the growing role AMR, Delta and UAL are expected to play in the international marketplace, as they have added routes from Eastern and Pan Am.

"In the next cycle, AMR will be the airline of choice," said Alliance's Mr. Pettee. "United and Delta are still wrestling with the acquisition costs, while AMR has largely put those behind it."

State Street Research's Ms. Lintz said AMR will be helped because its capital spending program is complete. "UAL will be much more interesting because it will have a major capital program in front of it."

Kemper's Ms. Fisher sees the international effort as the key to the airline's future, and she says that they do, too. "They are buying the future by buying the international routes while giving away the domestic product." ■

Air wars unlikely to aid AT&T

Phone call surges won't add profits

By Barry B. Burr

The surge in calls during the past two weeks by consumers trying to take advantage of newly slashed airfares set records for calling volume for American Telephone & Telegraph Co., although it might not boost its revenue much.

"I think it's interesting these airfares show up and manifest themselves in record calling volume," said George Dellinger, vice president and telecommunications analyst, County NatWest USA, Washington. "It's positive," he said of the increased calling volume's impact on revenue. But "it would not be significant."

Calling volume also rose at MCI Communications Corp. and possibly at Sprint Corp. because of calls to airlines, although Mr. Dellinger said the impact to their revenue, while positive, would be negligible also.

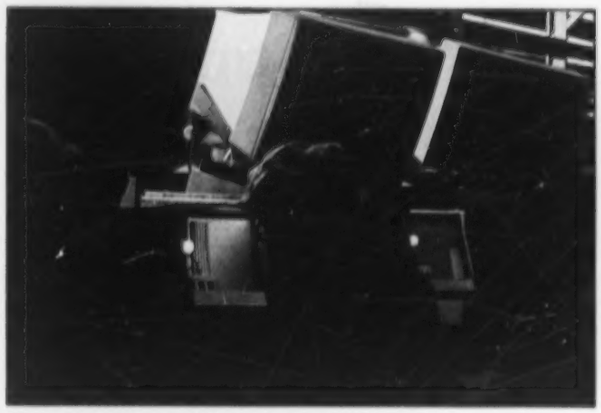
The additional calling volume "would be positive" to AT&T's revenue, said Edward L. Eyring, analyst, Argus Research Corp., New York. "But I would not expect it to amount to a whole lot."

"It's impossible to measure," said Geoffrey Johnson, analyst, Cowen & Co., Boston. "It's a temporary boost. It's not like it's a long-term sustaining impact on the company's growth rate."

As a result, he and the other analysts expect no discernable impact on the price of AT&T's stock.

The analysts noted the increased volume primarily was over 800 lines, which are toll free to consumers and allow airlines and other users picking up the charges to pay for the telephone service at a rate discounted from ordinary long-distance calls.

In addition, Rebecca Hathhorn, analyst, Duff & Phelps Inc., Chicago, like other analysts, noted the increase in calling volume will take place only over a few days, during the limited time offer airlines are discounting fares, also making for little impact on telephone revenue.



American Telephone & Telegraph Co. lines were swamped by people eager to cash in on the air fare specials.

Referring to the increased calls since the latest airline fare war began May 26, Richard Gray, AT&T spokesman, said, "We might have come up with another day's worth of 'message volume.' I'm not sure you can translate that into another day of revenue," in part because of the 800 discounted rate. He wouldn't estimate how much extra revenue was due to the increased volume.

He said its long-distance call volume, or its "switched network message volume" — AT&T's term for each telephone use, including phone calls, faxes and transmissions of computer data and television signals — has been averaging more than 20% above normal business-day volume of 135 million to 140 million calls.

AT&T set a long-distance volume record June 1 with 177.4 million calls. That broke the record volume of 159.6 million calls set only May 28, two days after Northwest Airlines, a unit of Wings Holdings Inc., began a free-ticket promotion and a day after AMR Corp.'s American Airlines cut its lowest advanced purchase fare in half.

Volume was up at MCI, said John R. Hauser, MCI public relations manager, although figures wouldn't be available for a month. But on the increase he suggested, "Overall it's immaterial." A Sprint spokesman wasn't able to confirm immediately whether its calling volume rose.

Last year, AT&T reported $38.8 billion in revenue from its long-distance calls, or "switched network." That amounts to 61.5% of AT&T's total 1991 revenue of $63.1 billion. AT&T wouldn't estimate average daily business calling revenue; and Mr. Gray noted the difficulty of using the annual figure to extrapolate daily revenue, since volume falls more than half to about 60 million to 65 million calls a day on weekends and because of the discounted rates for 800 service, among other reasons. ■

NYSE

Continued from page 1

now are beginning the formal process to remove the prohibition.

The NYSE does not have a timetable for implementing the proposal, nor a due date for receiving outside comments. A draft was to be mailed to 5,000 of the exchange's constituents last week. The exchange must submit its proposal to the SEC staff for initial discussions and usually some negotiation, after which a formal proposal is made to the commissioners. They can either accept or reject the proposal outright.

There are 60 companies with multiple shares listed on the NYSE, including Ford Motor Co., General Motors Corp., Wm. Wrigley Jr. Co., Dow Jones & Co., Figgie International Inc., The New York Times Co. and The Washington Post Co.

These companies were grandfathered under the rule imposed by the SEC in 1988. Since then, the NYSE has not allowed any new listings of multiple classes of shares.

In principle, institutional investors agree with the SEC's position and are afraid corporations will attempt to undercut shareholders' control by simply issuing new shares with better voting rights.

"What we really object to is owning a company and then having it issue shares that have higher voting rights than we do," said Curt Schacht, general counsel at the $15.6 billion State of Wisconsin Investment Board, Madison.

The Big Board sees this proposal as a trial balloon, according to Mr. Domijan.

"To begin the process of formulating a new rule, the exchange has developed a discussion draft of shareholder voting rights," he said. "What we're trying to do is get the issue back in front of as many people as possible."

The American Stock Exchange already has sent to the SEC its own proposal requesting the right to list multiple classes of shares, but the SEC effectively shoved it under the carpet, waiting, according to an exchange industry source, for the NYSE to make its proposal as the industry's leader.

At stake for the Big Board is the business of several hundred midsize companies that want the right to list multiple shares and will turn to competitors, such as the American Stock Exchange, to get it, said an NYSE competitor.

This new proposal "is really designed to capture the flag," he said. "They want to entice those several hundred companies — medium to good size — to list on the NYSE."

And, although institutional investors demand adherence to one share/one vote, they are putting more money into the fast-growing middle-capitalization stocks, and in some cases accepting diminished voting rights to do so.

"It's really a matter of our investment people deciding on a case-by-case basis if they want to buy one of these low-vote or no-vote stocks," said an official at a public pension fund who asked not to be named.

He said his fund had invested in shares with lesser voting rights, such as in two companies traded on the Amex: Nichols Institute and Applied Power Inc.

"They would compare these companies with other companies in the same industry group," the official said. "They consider dual classes of shares more risky, so in order to reward them for that risk there has to be a higher potential for long-term returns."

Big Board officials hope the proposal will be enacted at all the exchanges, not just at the NYSE.

"In an ideal world, the NASD, the Amex and ourselves would have a uniform corporate governance policy," Mr. Domijan said.

NYSE officials doubt this issue will be resolved quickly. Mr. Domijan admitted. He said in the series of meetings with constituents that spawned this proposal, "the recommendations to us ranged from keeping the (SEC) rule on our books to the New York Stock Exchange getting out of corporate governance altogether." ■